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*Trade acceptances.* (Philadelphia: Mascot Pub. Co. 1918. Pp. 24.)

*Wartime changes in the cost of living, July, 1914-November, 1918.*

Research report no. 14. (Boston: Nat. Indus. Conference Board. 1919. Pp. 33. \$1.)

*Working classes cost of living committee, 1918, report.* Cd. 8980. (London: Wyman. 1918. Pp. 28.)

### Public Finance, Taxation, and Tariff

*Income Tax Procedure, 1919.* By ROBERT H. MONTGOMERY.

(New York: The Ronald Press Company. 1919. Pp. xxviii, 979. \$6.00.)

The writers of textbooks on the income tax have had an exceedingly hard row to hoe this year. To sell their books rapidly they had to get them on the market before March 15 when the individual returns were due. But the new law was not signed by the President until the end of February, and the report of the conference committees did not go before the House and the Senate until February 8 and 10 respectively, so that the time was exceedingly short. Although the Internal Revenue officers proceeded with phenomenal expedition and published a preliminary edition of the regulations under the new law almost simultaneously with the enactment of the law itself, yet these regulations had not been fully distributed before the first "returns" were due and delinquent. In face of all these difficulties Mr. Montgomery sent his book to press under date of February 25, 1919. He promises, in a supplement "which will be forthcoming during March," but which has not been received in time for this review, to add a study of the new regulations.

The AMERICAN ECONOMIC REVIEW said of the 1918 edition of this book (see vol. VIII, no. 2, p. 380) that it was "among the best of the handbooks" on the income tax. The 1919 edition is better than that of 1918. The improvements are well worth noting in detail.

Radical changes from the former editions are found in the arrangement of this edition. One of them is the segregation, under the caption "former procedure," of decisions and rulings under the 1913, 1916, and 1917 laws, which are important because still in force as to incomes attributable to those years, but which do not apply generally to income of 1918. The introductory chapter on the history and origin of the income tax has been rewritten for this edition by Professor Robert Murray Haig. A very useful section dealing with the administration of the tax law has

been added to the introduction. There is a marked improvement throughout the book in the general arrangement and presentation, which now show the hand of a skilled editor. It is particularly helpful to have the book logically divided into: part I, Application and Administration, which covers exemptions, returns, rates and computations, protests, appeals, refunds, information and stoppage at source; part II, Income; part III, Deductions; part IV, Special Classes of Taxpayers; part V, Excess and War Profits Taxes; and part VI, Miscellaneous, including, however, only the capital stock tax and the munitions manufacturers' tax.

An examination of the book shows that no pains has been spared to include all the new rulings since the last edition down to February 25, 1919, and all the new points of the "revenue law of 1918" so far as they could be drawn from the text itself.

The clarification of the distinction between capital and income which came with the rulings under the 1917 law and which has been embodied in the new law is well brought forth in the new edition (see p. 27, chs. XI and XXVI on depletion, and elsewhere). It is not surprising that the author failed to catch on his "cursory examination" of Regulations 45 (which he could not have had in hand more than a few hours) the remarkable concession contained in Article 47, that where compensation for a loss of property, as by fire, exceeds the value of the property lost "the transaction is not regarded as completed at this stage, however, if the taxpayer proceeds immediately in good faith to replace the property." One might be excused for not believing his eyes the first time he read that concession which has the most far-reaching consequences. Yet the concession is the logical sequence of those provisions of the new law, notably the one relating to losses by decline of inventory values, which recognize that, owing to the fluctuations in the value of money, "net railroad *money* income" is not always what it seems.

In the historical survey there is a lack of clearness as to the rates of the Civil War income tax (p. 16). One is left to infer from the language used that the rates under the law of 1862 and those under the law of 1864 were changed only as to their size. As a matter of fact the form of progression was fundamentally changed as well. Under the law of 1862 the rate changed abruptly at \$10,000 from 3 per cent in the excess over \$600 to 5 per cent on the excess over \$600. That is, an income of \$9,999 paid a tax of \$281.97 and an income of \$10,001 paid a tax of \$470.05.

In 1864 the present system of applying an increased rate only to the excess over the maximum subject to the preceding rate was introduced. So that the rate was not 10 per cent on the aggregate of an income above \$10,000, as implied in the book, but 10 per cent on the excess over \$10,000. That is, the tax under the 1864 rates is only 10 cents more for \$10,001 than for \$10,000. Since this is a feature which differentiates the American from any other important income tax it is worth while to note when it was invented. This lack of clearness, which arose apparently from failure to consult the original statutes, is not new; it is to be found also in most of the older textbooks and histories.

Last year the book was criticised for its hostile attitude toward the farmers. This year, perhaps because there is a special schedule for farmers' income, the book contains a separate chapter on farmers. But that chapter contains little more than copies of the regulations. The alleged advantage to the farmer arising from not including crops consumed as food in the taxable income, is again allowed to obscure the fact that making each year stand on its own bottom creates far greater inequalities against the farmer. It seems rather far fetched to reproach the farmer for buying "automobiles and farm equipment" from "taxable income rather than from borrowed money"; and the apparent assumption that "farm equipment," by which is probably meant plows and tractors, is a capital investment and not a current expense is very weak accounting logic.

Last year comment was made on the "impatient expression of criticism, both of the law and of the administration." This year some of those expressions are graciously and condescendingly modified. "The 1918 revenue bill is almost a good one" (p. iii). Still, Congress has not "kept faith with the taxpayers" (p. iii). The apology to the Bureau of Internal Revenue is in substance: You're not quite such a fool as I said you were since you have taken a "more reasonable attitude" (p. 5).

While the author claims that "no suggestions for evading the tax" will be found in the book, it is still true as was said last year, that there are many arguments which a lawyer would be glad to incorporate into his brief in some case involving tax dodging. Notable in this connection is the broad hint on page 499 that a man may sell, say, Liberty Bonds, in December, take the loss as on a "closed transaction," then buy them back in January. This is all right, we are told, if it is not a "wash sale." It may be

legal but it is "rough stuff" (p. iv) just the same. The same line of criticism is applicable to the discussion (p. 407) of the "cost of professional books." In last year's addition there was an outright error on this point when it was said that such purchases were "allowable deductions." This year the statement is wholly revised, but a new and equally erroneous argument is set up in order to arrive at the same conclusion, namely, that since "depreciation may be claimed in respect thereof—the entire cost of professional or business books is deductible." If professional men handle their books so roughly as this implies why not have them printed as are babies' picture-books on stout linen cloth and varnished over. Nor does obsolescence apply. Even Colonel Montgomery's 1918 edition is not 100 per cent obsolete because of the publication of his 1919 edition.

Lest anyone should be misled by the above criticisms, which, after all, are on relatively small points, into thinking that it is not worth while to purchase the 1919 volume because he has the 1918 edition, we shall close this review by a specific reference to the chapter on Depreciation. This chapter has been entirely rewritten, and that not merely to embody the new provisions of the law and the new regulations, but in a way to present the interesting principles of accounting involved. Possibly depreciation is the most troublesome entry the taxpayer has to make. It is certain that it will be difficult to find anywhere any clearer, more practically useful and easily applicable instructions than have been written by Colonel Montgomery in this admirable chapter.

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#### NEW BOOKS

ADAMS, R. C. *Taxation in Nevada; a history.* (Reno: Nevada Hist. Soc. 1918. Pp. 195. \$1.50.)

BLACK, H. C. *Income and other federal taxes 1919.* Fourth edition revised. (Rochester, N. Y.: Lawyers' Coop. Pub. Co. 1918. \$6.)

BLONDEL, G. *Pour une paix durable.* (Paris: Bossard. 1919. 4.50 fr.)

FITZPATRICK, F. A. *Budget making in a democracy. A new view of the budget.* (New York: Macmillan. 1918. Pp. 317. \$1.50.)

Discussion of budgetary practice in the United States has centered, during the past decade, on the problem of devising a means of escape from the planless, extravagant appropriations that accompany the fiscal legislation of the national and many of the state